

Continuous Improvement in BAA Procurement Strategy

Breda Ryan
Project Controls Leader



Agenda



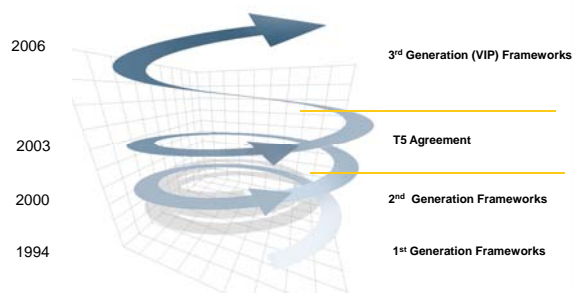
- ▶ Introduction
- ▶ History of Procurement Models at BAA
- ▶ Lessons Learnt from Framework Agreements & T5 Agreement
- ▶ Capital Engagement Strategy
- ▶ Summary

Introduction



- ▶ About our business
 - ▶ BAA is the world's leading airport company. We own and operate 7 UK airports.
- ▶ Construction Programme
 - ▶ Over the next 5 years we plan to invest about £6.6 billion at our airports.
 - ▶ At the same time, we aim to invest a further £400 million at our Scottish airports

Historic milestones on our journey



Key Features of the T5 Agreement



- ▶ Unique Legal Contract
 - ▶ Manages the cause and not the effect
 - ▶ It ensures success in an uncertain environment
 - ▶ Focuses on managing risk rather than avoiding litigation
- ▶ Incentive Fund
 - ▶ Replaces Risk payments
 - ▶ Funds shortfalls
 - ▶ Provides opportunity to improve profits
- ▶ Insurance
 - ▶ It insures loss or damage to property, injury, death and Professional Indemnity, eg BAA insure the project not the supplier
- ▶ Non Performance
 - ▶ Reduces windfall for everyone

T5 Agreement



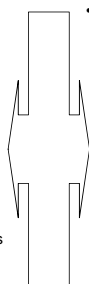
- ▶ T5 Agreement
 - ▶ Legally binding contract between Heathrow Airport and its key suppliers.
 - ▶ Created an environment for T5 to be a success.
 - ▶ Allowed multi suppliers work in truly integrated teams.
 - ▶ Focused on solutions to problems rather than attributing blame.
 - ▶ Focused on proactively managing risk rather than avoiding litigation.
 - ▶ BAA carried all the risk.
- ▶ Integrated Teams
 - ▶ Client / Contractor Relationship Management
 - ▶ Collaborative environment
 - ▶ Integrated since the outset of design
 - ▶ Co-location
- ▶ What tied all the pieces together to deliver a world class major project?
 - ▶ Core Processes
 - ▶ Key Processes
 - ▶ Supporting Processes

Contracting Approach



•Usual contracting

- Transfer of risk
- Price in advance
- Profit at risk
- Penalties
- Defined scope
- Employer's team
- Skill and Care
- Compliance/remedies driven
- Silos



•T5 Approach

- Cannot transfer risk
- Remained Flexible
- Integrated teams
- BAA retained the risk
- Active risk management
- Reimbursed properly incurred cost
- Profit levels pre agreed
- Emerging pre-planned scope
- Single integrated team values
- Exceptional performance
- Goals/Targets
- Success driven
- Defined Liability

DIFFERENT UNDERLYING ASSUMPTIONS

What the T5 Agreement meant to key audiences



BAA PLC

Enabled exceptional performance
e.g. BAA held all the risk all of the Time / on time, in budget and to quality

Suppliers

It give them an opportunity to create competitive advantage for their business – Using T5 as showcase
Enabled a step change in performance

Teams on T5

Worked in highly effective integrated teams that were committed to achieving T5 Milestones
It was about trusting each other and relying on each other to work together
It was about supplier teams, and BAA staff working as one team

All T5 team members demonstrated:

Commitment

Trust

Team work

Aligned in our focus on exceptional performance

Behaviours we encouraged



BEHAVIOURS

Commitment

- Being seen to do what we say
- Challenging targets
- Value-focused
- Managing the supply-chain
- Enabling processes & solutions

Teamwork

- Fully inclusive teams
- Integrated
- Co-located
- Share responsibility
- Share success
- Outcome - not problem – focused
- Helping & supporting
- Enabling individuals
- Managers as enablers
- Fully empowered
- Trained
- Celebrate achievements
- Leading by example

Trust

- Partnering
- Co-operation
- Meaning what we say
- Respect
- Selected on merit
- Treating our workforce as customers



Lessons Learnt



- ▶ Process, organisations and behaviours designed to;
 - ▶ expose and manage risk
 - ▶ promote and motivate opportunities
 - ▶ address behaviours in all relationships
- ▶ Leaders recognised that;
 - ▶ change and uncertainty is the norm
 - ▶ a different outcome means doing something different

BAA Capital Engagement Strategy



BAA's new Capital Engagement Strategy

The launch of Value in Partnership (VIP) third generation framework agreements:
Setting new standards together

Our six key principles:

1. Continued commitment to long-term framework relationships with suppliers rewarded by their performance
2. Progressive dependence on, and trust in, supplier capability
3. A pre-agreed commercial model with incentives to exceed targets
4. Collaborative working with real-time transparency to drive value
5. Active management of risk and opportunity
6. Relationship driven by aligned objectives, behaviours and values

The Value in Partnership framework model

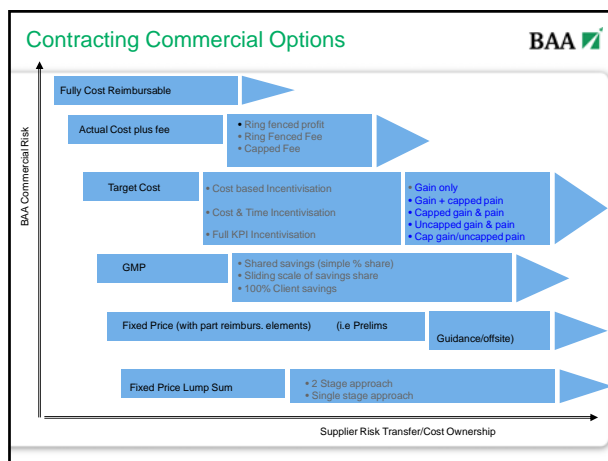
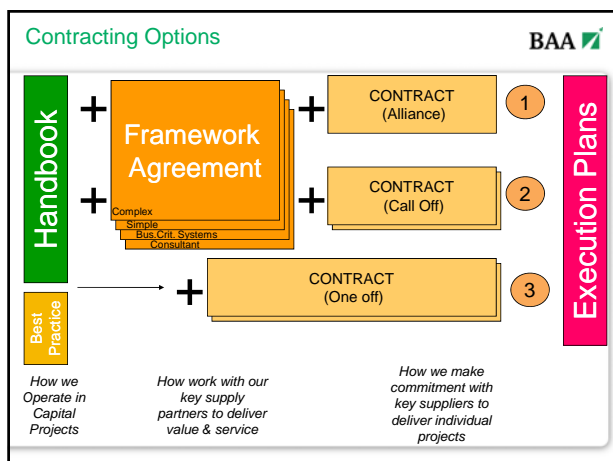
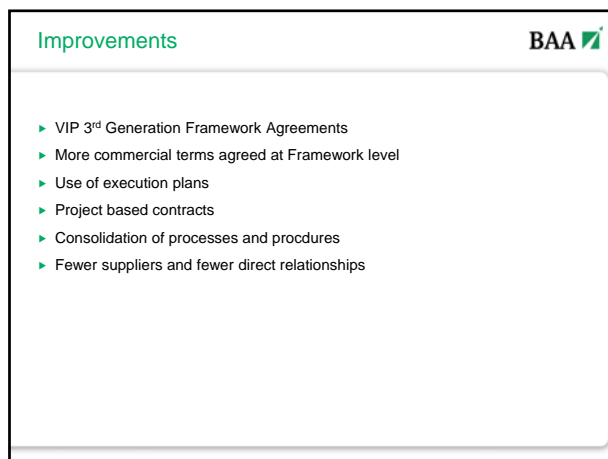
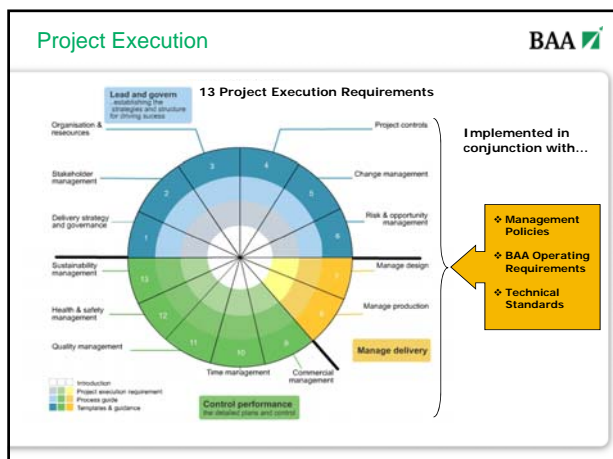
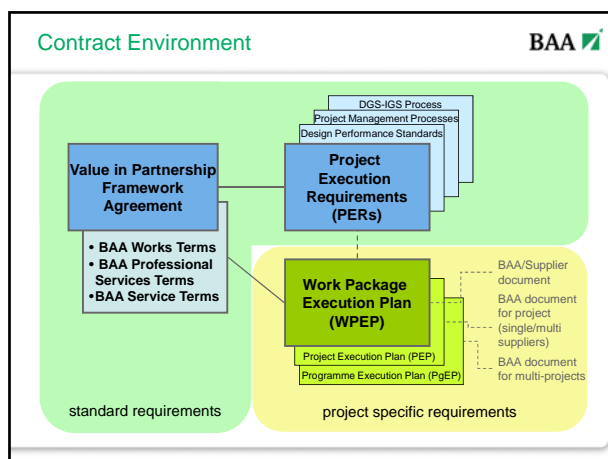
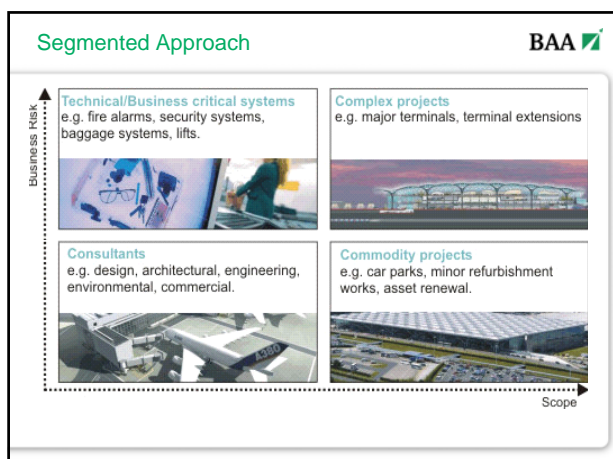


Capital Engagement Strategy



Key Principles

1. Long-term framework relationships - project awards based on performance
2. Progressive dependence on and trust in supplier capability
3. Pre-agreed Commercial Model with incentives to beat targets
4. Collaborative working with real time transparency to drive value
5. Active management of risk and opportunity
6. Relationship driven by aligned objectives, behaviours and values



Project Commercial Approach (By Stage)



	Scheme	Production	Manufacture	Assembly
Fully Cost Reimbursable				
Actual Cost plus fee				
Target Cost				
GMP				
Fixed Price (with reimb.)				
Fixed Price Lump Sum				
	Supplier Risk Transfer/Cost Ownership →			

Competition within CBi Framework



Fee	Capped fee % Net sales discount Value commitments	Competitively tendered and negotiated at Framework level Option to negotiate fee reduction at project level against agreed scale & risk/opp profile
Staff	Fixed all-in rates and agreed inflation indexing	Competitively tendered and negotiated at Framework level
Production Costs	Agreed fee mark up on 2nd tier supply and intercompany fee levels (where appropriate), excluded mark up on mark up on interco.	Competitive tender at 2nd tier level and/or use of in-house capability or existing supply chain where these can be benchmarked/market tested as best value Trade discounts passed down to BAA

Summary



► Deliver Enhanced Value Together by:

- Segmentation – Frameworks aligned to project complexity
- More accountability to suppliers
- Improved risk management - Together
- Greater leverage of Technology Partnerships
- Greater balance between Collaboration and Commercial Tension
- Reinforcing long term relationships to deliver value

► With no compromise to Safety & Sustainability